



February 28, 2023

VIA Email & U.S. MAIL

Mr. Arvin Singh
Vice President Strategic Planning and Communications
University of Maryland Shore Regional Health
219 South Washington Street
Easton, Maryland, 21601

**Re: University of Maryland Shore Medical Center at Easton –
Matter No. 23-20-2463**

Dear Mr. Singh:

Commission staff has collaborated with the HSCRC on a review of the financial tables in your Certificate of Need (CON) application from University of Maryland Shore Medical Center at Easton (UM SMC). There are questions about the information submitted in the tables that require follow up, and therefore please provide responses to the following:

Table E

1. Please define UMMS/OVHO \$1,500,000 under Capital Costs (line 32) in the budget.
2. As the age of the bid estimates used in the project budget may impact the actual contracted cost and may overtake the projected contingency and inflation allowances, please provide the dates of the contract bids.
3. There has recently seen a 38% hike in construction costs on CON construction projects with aged bid estimates. Are stated values in Not to Exceed (NTE) contracts?
4. In the CON application on page 211, the sources of funds include \$38.6M from cash of which \$20M has been spent and \$18.6M is restricted on the balance sheet of University of Maryland Shore Regional Health (UM SRH). The hospital subject to the CON is University of Maryland Shore Medical Center at Easton, but the CON applicant is Shore Health Systems (SHS) which adds in both Cambridge and Queenstown Freestanding Medical Facilities (FMFs). The balance sheet resource is UM SRH which adds in Chestertown Hospital. Which of these four hospitals is expected to have operations performance sufficient to generate an extra \$18.6M beyond its operational needs to contribute toward this project? Please provide projected balance sheets for each of the four hospitals and as consolidated for SHS and UM SRH through 2032 to study ongoing financial viability.

Mr. Singh
UM SMC Easton
February 28, 2023

5. Sources of funds include \$50.0M from philanthropy following a feasibility study and using the efforts of a national fund-raising firm. What is the timeline for the realizability of the targeted goal? What is the alternate source should the timeline stretch beyond the planned construction period?
6. Sources of funds include \$333.3M from bond proceeds and financing costs includes \$2.98M for loan placement fees. Is this to be Maryland Health and Higher Educational Facilities Authority financed? What is the status of the bond financing? What is the timeline for the realizability of bond proceeds? Please specify the obligated group for the bond financing.
7. Sources of funds include \$100.0M from state grant or appropriation. Has the current governor committed this value? If so, what is the timeline for realizability? If this source is deemed to be unrealizable, then please amend the sources of funds for the project budget and projected P & Ls and balance sheets for the Easton hospital, and the consolidated applicant.

Table F

8. Upon initial HSCRC staff review, we were not able to tie values for patient days, outpatient visits, and observations to Schedule Vs of annual filings for 2021 & 2022. Please provide breakdown by year and by facility. If past values need to change, does this impact projected values?
9. Please provide a 3-D build-up (by entity and consolidated to support P & L projections) of Table F.

Table G

10. Patient service revenues (PSR) reflect projected contractions in 2028, 2030, 2031, and 2032. There is a projected rate increase for capital of \$24.0M in 2029 (CON application page 99). Given that the projection reflects an increase in PSR in 2029 over 2028 of \$20.475M, that implies a contraction for other reasons of \$3.525M. The assumptions table attached with Table G does not indicate a revenue contraction in these 5 years. What is the nature of these contractions? Which entity or entities of the applicant are requesting a Full Rate Application (FRA)?
11. Current interest expense and current depreciation grow in 2023 over 2022. Was a capital improvement and related debt added in 2023? Please explain.
12. Operating expenses reflect projected contractions in 2024, 2025, 2026, and 2027. The assumptions table reflects \$15.0M in cumulative performance improvements by 2027. In which line items are the performance improvements reflected? How much in each year?



Mr. Singh
UM SMC Easton
February 28, 2023

13. HSCRC staff needs projected P&Ls by entity, as the changes in patient service revenues and operating expenses will not be impacted equally. The applicant is SHS, is the FRA to apply to all SHS entities, or only Easton?
14. Please supply a 3-D build-up (by entity and consolidated to support P & L projections) of Table G, so as to see which entities change each year.
15. The audit presentation (Exhibit 25) of consolidating P&L (pp. 68, 70, and 72) reflects 2022 operating income of \$38.739M by division, \$55.157M by obligated group, and \$40.437M by hospital. None of these numbers tie to \$30.787M per Table G. Please reconcile and repeat for other years presented. Please provide consolidating financials supplementary information for division, obligated group and by hospital for FY 2021 to support this reconciliation.

Table H

16. HSCRC staff requires projected P&Ls by each of the four entities, as the changes in patient service revenues and operating expenses will not be impacted equally. The applicant is SHS, is the FRA to apply to all SHS entities?
17. Please reconcile the growth in top line revenues (2024 2.6%, 2025 2.8%, 2026 2.7%, 2027 2.7%, 2028 2.5%, 2029 8.7%) in the Table H assumptions.
18. Operating expenses reflect projected contractions in 2024, 2025, 2026, and 2027. The assumptions table reflects \$15.0M in cumulative performance improvements by 2027. In which line items are the performance improvements reflected? How much in each year?
19. Please provide a 3-D build-up (by entity and consolidated to support P & L projections) of Table H, so staff can see which entities change each year.

Tables I, J, and K

20. These tables were omitted in the CON. Please provide required tables for Easton facility & services.

Balance Sheet Projections

21. As an aid to evaluating the initial feasibility and ongoing viability of the project, please share projected balance sheets for each entity and year projected. Include by entity computations of days cash on hand, and debt service coverage.
22. Please define obligated group for debt financing.

Please submit four copies of the responses to above questions and requests for additional information within ten working days of receipt. Also submit the response electronically, in both Word and PDF format, to Ruby Potter (ruby.potter@maryland.gov). If



Mr. Singh
UM SMC Easton
February 28, 2023

additional time is needed to prepare a response, please let me know at your earliest convenience.

As with the request itself, all information supplementing the request must be signed by person(s) available for cross-examination on the facts set forth in the supplementary information, who shall sign a statement as follows: "I hereby declare and affirm under the penalties of perjury that the facts stated in this application and its attachments are true and correct to the best of my knowledge, information, and belief."

Should you have any questions regarding this matter, please contact me at (410) 764-5982.

Sincerely,



Wynnee Hawk,
Chief, Certificate of Need

cc:

Ruby Potter, MHCC
Paul Parker, Director, Center for Health Care Facilities Planning and Development
Caitlin Tepe, AAG
Alexa Bertinelli, AAG
Maria A. Maguire, M.D., Health Officer, Talbot County
Thomas Dame, Esquire
Mallory Regenbogen, Esquire
Alison B. Lutich, Esquire
Bob Gallion, HSCRC

